

Montana Department of Natural  
Resources and Conservation  
Forestry Division  
Subaward Manual



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## Section 1: Introduction

### 1.1 Purpose

The Montana Department of Natural Resources and Conservation Forestry Division's (DNRC) Subaward Manual, herein referred to as "manual," was established to assist with interpreting the administrative and financial requirements for DNRC state and federal funds distributed through grants and other agreements.

This manual is intended to *supplement* the federal, state, and programmatic requirements that govern award administration. It is not a substitute for familiarization with the actual requirements. Any omission of a federal, state, or local requirement from this manual does not waive a subrecipient's responsibility to comply with that requirement.

### 1.2 Definitions and Websites

- ❖ Terms that are blue in color and underlined are electronically linked to a definition in **Appendix A**. They can also be manually retrieved in the appendix.
- ❖ URLs, also blue in color and underlined, are linked to various websites for reference.

### 1.3 Notes on Terminology

When DNRC receives a grant award directly from a federal agency, DNRC is considered the primary recipient of the award. When DNRC then subawards (or subgrants) the funds to another entity, this entity is considered a subrecipient (or subgrantee), and DNRC is deemed a pass-through entity.

If the subrecipient then subawards the federal funds to another entity, that entity is considered a second-tier subrecipient. The entity that is intended to ultimately benefit from the award is considered a beneficiary. Beneficiaries are not considered subrecipients and therefore are not subject to the same regulatory and administrative requirements as subrecipients.

When DNRC awards state funding (rather than federal funding), DNRC is the awarding agency, and the receiving entity is the primary recipient.

State and federal grant administrative requirements are very similar. For the sake of simplicity, the term "**subrecipient**" is used throughout the manual to refer to both recipients and subrecipients, and "**subaward**" to refer to both awards and subawards of DNRC funds, regardless of the underlying funding source.

For more information on the flow-down of federal grant award funding and related terminology, see **Appendix B**.

## 1.4 Manual Updates

The manual is updated as necessary; dates and details are provided in **Appendix C**.

## 1.5 DNRC Contact Information

For questions or comments about the manual, please contact the DNRC Forestry Division:

DNRC Forestry Division  
Business Management Bureau  
2705 Spurgin Road  
Missoula, MT 59804  
Phone: (406) 542-4300  
Fax: (406) 542-4217

## Section 2: Compliance with Laws and Regulations

### 2.1 Office of Management and Budget (OMB) Guidance

Subrecipients of federal grant funds must comply with the *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)* published by the federal Office of Management and Budget (OMB). These regulations apply to **all** entities receiving federal awards or subawards.

The *Uniform Guidance* is consolidated in the [Code of Federal Regulations](#) (CFR), Title 2, Part 200, Subparts A through F and appendices. These regulations, referred to collectively as “2 CFR 200,” are regularly referenced in this document. They can be viewed in their entirety at [www.ecfr.gov](http://www.ecfr.gov). Select “Title 2 – Grants and Agreements,” and then “Parts 200-299 – Office of Management and Budget Guidance.”

### 2.2 Additional Regulations Governing DNRC Subawards

Additional regulations governing DNRC subawards include, but are not limited to:

- ❖ federal, state, and local laws, statutes, rules, and ordinances, as applicable;
- ❖ the federal award—the signed agreement between DNRC and the federal agency providing funding. Subrecipients are subject to some of the terms and conditions of the federal award, which are referenced in the Subaward Agreement;

- ❖ the Subaward Agreement—the signed agreement between DNRC and subrecipient; and
- ❖ any applicable federal or state program requirements. These are generally communicated to the subrecipient through subaward-related materials such as the application, request for proposal, and Subaward Agreement; or via relevant agency websites and publications.

## Section 3: Applying for DNRC Subawards

### 3.1 Eligibility to Receive Subawarded Funds

The following requirements must be met for an entity to receive subaward funds from DNRC.

#### ❖ **Debarment and Suspension**

Recipients and subrecipients of federal funds are required to sign Form AD-1048, “Certification Regarding Debarment, Suspension, Ineligibility and Voluntary Exclusion—Lower Tier Covered Transactions,” certifying that neither they nor their principals have been debarred or suspended or are otherwise ineligible to receive federal funds. Federal debarment and suspended party searches can be conducted at [www.sam.gov](http://www.sam.gov).

#### ❖ **Insurance Requirements**

Subrecipients must purchase and maintain liability insurance coverage equal to or exceeding the limits required in the Subaward Agreement. Prior to applying for subaward funds, applicants can contact the designated DNRC Program Manager for information about insurance requirements. Documentation required by DNRC to verify insurance depends on the type of entity:

*(1) Counties, cities, or towns covered under the Montana Municipal Interlocal Authority (MMIA) or Montana Association of Counties (MACo) have coverage verified by DNRC.*

*(2) Entities covered under private insurance companies must submit the following insurance verification documentation to DNRC before a Subaward Agreement can be executed:*

- current Certificate of Liability Insurance that (a) includes the types and maximum coverage for the insurance, (b) names the State of Montana as an additional insured and as the certificate holder, and (c) carries the DNRC Subaward Agreement Number on the face of the certificate.
- Endorsement page(s) to document the naming of the State of Montana as an additional insured. The address to use on the endorsement is: State of Montana; ATTN: DNRC Procurement Office; PO Box 201601; Helena, MT 59620-1601.

❖ **Single Audit**

Any applicant that has expended \$750,000 or more in all federal awards in the subrecipient's preceding fiscal year is required to complete a [Single Audit](#) or [Program-specific Audit](#) for that year in accordance with the provisions of 2 CFR 200-Subpart F. If the subrecipient has completed one of these audits, verification of the audit and any findings must be submitted to DNRC prior to execution of the Subaward Agreement. For more information on audits, visit <http://harvester.census.gov/sac/>.

❖ **Subaward Disbursements**

DNRC prefers to release subawarded funds for project costs on a reimbursement basis, consistent with guidance found in 2 CFR 200.305. Therefore, applicants should be able to pay project costs from their own funds before requesting reimbursement from DNRC. Under certain circumstances a DNRC Program Manager may approve an advance of awarded funds. To discuss this possibility, contact the manager prior to the execution of the Subaward Agreement.

❖ **DUNS Number**

A subaward applicant must have a DUNS number prior to signing a DNRC Subaward Agreement. Applications are made through Dun and Bradstreet (D&B) at [www.dnb.com](http://www.dnb.com).

❖ **TIN/EIN**

A subaward applicant must have a Tax Identification Number (TIN), also called an Employer Identification Number (EIN), obtained from the IRS at <http://www.irs.gov>.

❖ **State Registration**

Private entities (nonprofits and for-profits) must be registered with the Montana Secretary of State's office at <http://sos.mt.gov/Business/>. (Select the "Business Toolkit.")

❖ **Internal Controls**

Entities applying for DNRC subaward funds must have internal controls and financial management systems in place to provide reasonable assurance of effectiveness and efficiency of operations, reliability of reporting for internal and external use, and compliance with applicable laws and regulations. See 2 CFR 200.302 and 303.

❖ **Specific Subaward Program Requirements**

In addition to the requirements listed above, each DNRC subaward program has its own specific eligibility requirements. These are detailed at the DNRC website, "grants and loans" link, at <http://dnrc.mt.gov/grants-and-loans>.

## 3.2 Subaward Application

Most applications for DNRC subaward funding require a project narrative and proposed budget. Their general contents are summarized here. Note that content will also vary by grant program.

### Project Narrative

The narrative typically includes a Project Description, Funding Plan, and Work Plan.

❖ **Project Description.** Describe the following:

- specific activity to be accomplished,
- goals and objectives that coincide with subaward requirements,
- location of the project or activity,
- key personnel, and
- any anticipated subawarding or subcontracting activity.

❖ **Funding Plan.** Clarify how award funds will be used and how [match](#) requirements will be met (if applicable).

❖ **Work Plan.** Explain the the work plan and timetable for specific milestones, if known, and how progress will be measured.

### **Project Budget**

The project budget should provide realistic estimates of anticipated expenses, broken out into the budget categories in the application. Although budgets vary by award program and project, they typically include line items for [direct costs](#) (such as salaries, operating expenses, and contractual costs) and clearly distinguish between award and match funds. If goods or services are to be procured, quotes from [vendors](#) or [contractors](#) may help to estimate costs.

DNRC recognizes that the costs shown in a proposed budget are usually estimates at the beginning of the project and as such are subject to revision as more information becomes available. Most Subaward Agreements contain a provision allowing for minor adjustments between budget items or categories without the need for formal revision or amendment to the agreement. Significant adjustments, however, require a written amendment. Subrecipients should consult with their DNRC Program Manager if they anticipate needing to deviate significantly from the award budget approved by DNRC.

When preparing the project budget for the application, subrecipients should review 2 CFR 200-Subpart E to determine the types of costs that are generally [allowable](#) and [unallowable](#). Some types of costs are allowable only under certain circumstances, while others are always unallowable. This topic is discussed more extensively in **Section 4.1**.

### **Match (Cost Share) Requirement**

Match, also referred to as cost share, is generally the portion of project or program costs not paid with award funds. Typically, it is the subrecipient's contribution and/or donated goods or services. A match commitment may be required from the subrecipient by the DNRC subaward program; check the appropriate program for specifics. If an award program requires a match:

- ❖ The narrative must clearly explain how match funds will be used to support the project.
- ❖ The budget must clearly distinguish between award and match funds.
- ❖ Applicants must be able to commit to the match they have pledged to contribute.



On a final note, federal funding cannot be used as match on federal awards or subawards. For more information on match requirements, see **Section 4.5**.

## Section 4: Project Costs

### 4.1 Allowable Costs

#### **General Principles for Allowable Costs**

Application of the following principles for allowable costs is based on the fundamental premise that subrecipients are responsible for the following:

- ❖ administering the award efficiently and effectively through the application of sound management practices;
- ❖ managing award funds in a manner consistent with underlying agreements, program objectives, and the terms and conditions of the Subaward Agreement; and
- ❖ employing whatever form of organization or management is necessary to assure proper and efficient administration of subawarded funds.

**To be considered “allowable” under a federal award or subaward, a cost must at a minimum be:**

- ❖ **necessary** to accomplish the project objectives as described in the Subaward Agreement and applicable industry or program standards;
- ❖ **reasonable** for proper and efficient performance and administration of the subaward. A cost is “reasonable” if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost; and
- ❖ **allocable** to the subaward under the provisions of 2 CFR 200.405. A cost is allocable to a particular [cost objective](#) if the goods or services involved are chargeable or assignable to the cost objective in accordance with the relative benefits received.

**Additional general criteria for allowability of costs require that the cost also:**

- ❖ be authorized or not prohibited under state or local laws or regulations;
- ❖ conform to any limitations or exclusions set forth in cost principles established by 2 CFR 200-Subpart E, federal or state laws, terms and conditions of the subaward, or other governing regulations as to types or amounts of cost items;

- ❖ be consistent with policies, regulations, and procedures that apply uniformly to both federal and state subawards and other activities of the entity;
- ❖ be accorded consistent treatment. A cost may not be assigned to the subaward as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the subaward as an [indirect cost](#). For more information about direct and indirect costs, see **Section 4.3**;
- ❖ be determined in accordance with [Generally Accepted Accounting Principles](#) (GAAP), except as otherwise provided for in 2 CFR 200.416-419;
- ❖ not be included as a cost or used to meet match requirements of any other federal or state award in either the current or a prior period, except as specifically provided by federal law or regulation. For more information on match, see **Section 4.5**;
- ❖ be the net of all [applicable credits](#). Applicable credits, whether accruing or received, should be credited to the applicable award(s) as a cost reduction or cash refund, as appropriate; and
- ❖ be adequately documented. For more information on disbursement documentation, see **Section 4.6.2**.

Allowable Costs are described in greater detail in 2 CFR 200-Subpart E.

## 4.2 Unallowable Costs

**Unallowable costs will not be reimbursed.** If a particular item is not mentioned in the manual or Subaward Agreement, no implication should be drawn that the cost is either allowable or unallowable. If a particular item is not listed in this manual or in 2 CFR 200-Subpart E, it may be possible to determine allowability based on the degree to which it shares common characteristics with another, similar item that is listed. If no similar item is discussed, the general tests of allowability described above should be applied. If cost allowability is difficult to determine, subrecipients should consult with their DNRC Program Manager prior to incurring the cost.

Examples of Unallowable Costs include, **but are not limited to**, the following:

- ❖ *Unapproved Costs*. Costs not previously approved by DNRC in the subaward application, Subaward Agreement, or subsequent subaward amendments are usually unallowable.
- ❖ *Lobbying and Political Activity*. The costs of certain influencing activities associated with obtaining grants, contracts, cooperative agreements, or loans are not allowable.
- ❖ *Match (Cost Share)*. Costs claimed to meet match requirements for other federal or state grants are not allowable.

- ❖ *Donations and Contributions.* The value of donated items or volunteer services is not reimbursable as either a direct or indirect cost; however, it may be used to meet match requirements.
- ❖ *Entertainment.* Costs of entertainment, including amusement, diversion, and social activities, as well as any associated costs (such as tickets to shows or sporting events, meals, lodging, rentals, transportation, and gratuities), are unallowable.
- ❖ *Goods or Services for Personal Use.* Costs of goods or services for personal use of the subrecipient's employees are unallowable regardless of whether the cost is reported as taxable income to the employees.

### 4.3 Direct and Indirect Costs

As noted in **Section 4.1 Allowable Costs**, costs must be consistently treated as either direct or indirect. Cost principles set forth in 2 CFR 200.412-415 state clearly that a cost may **not** be assigned to a federal or state award as a direct cost if any other cost incurred for the same purposes in like circumstances has been allocated to the federal or state award as an indirect cost. This practice helps to avoid possible double-charging of federal or state awards.

There is no universal rule for classifying a particular cost as either direct or indirect under every accounting system, but the following guidelines may help determine whether to treat costs as direct or indirect.

**Direct Costs.** Direct costs are those that can be identified specifically with a particular final cost objective, such as a federal award or other activity. Costs that are typically charged as direct costs may include, but are not limited to:

- ❖ compensation (salaries, wages, and fringe benefit costs) of employees for the time devoted to and identified specifically with the performance of the federal award;
- ❖ cost of materials acquired, consumed, or expended specifically for the purpose of the award;
- ❖ cost of services performed in order to accomplish the award; and
- ❖ travel expenses incurred specifically to carry out the award.

**Indirect Costs.** Indirect costs are those incurred for a common or joint purpose benefitting more than one cost objective **and** not readily assignable to the cost objectives specifically benefitted, without effort disproportionate to the results achieved. Indirect costs tend to be necessary for the operation of an organization as a whole, and the benefits are generally shared across all programs. They are also known as “facilities and administrative,” or F&A, costs.

Reimbursement of indirect costs by DNRC is based on the entity's indirect cost rate. This is a predetermined rate negotiated either with the entity's [Cognizant Agency](#) or with DNRC prior to

or during the subaward application process. Indirect costs are determined by applying the entity's negotiated indirect cost rate percentage to the direct cost base. If the entity does not have an approved indirect cost rate or a rate explicitly stated in the Subaward Agreement, it should be assumed that indirect costs are not an approved budget item under the subaward and as such are not eligible for reimbursement.

An indirect cost pool **may** include items such as:

- ❖ depreciation and use allowances on buildings and equipment,
- ❖ facility operations and maintenance costs,
- ❖ general administration and general expenses, and
- ❖ personnel and accounting administration.

For more information on indirect costs, see 2 CFR 200.414. The decision tree in [Appendix D](#) may also help to determine whether a cost should be considered direct or indirect.

## 4.4 Budget Categories

Budget categories for direct costs in a DNRC Subaward Agreement may include [Personnel Costs](#), Operating Expenses, Equipment, Contracted Services, Payments to Beneficiaries, and Subawards to Second-Tier Subrecipients.

### 4.4.1 Personnel Costs

Personnel Costs, also referred to as payroll charges, include compensation paid to employees as wages or salaries and related fringe benefit costs for services provided during the period of the subaward. As with any cost attributed to the subaward, personnel costs must meet the general test of **allowability** in that they must be **necessary, reasonable, and allocable** to the award.

Personnel costs can be checked for reasonableness by comparing compensation with other organizations' pay for similar work, or if no similar work exists, with market salary standards. The charges must be consistent with other payroll charges and organizational policies, and they must not be charged elsewhere to another award or function.

Fringe benefits associated with payroll charges (such as the employer's portion of social security, insurance benefits, contributions to retirement programs, compensated absences such as vacation, holiday, military, and sick leave) are also allowable, provided the benefits are reasonable and required by law, employee agreement, or established policy of the subrecipient (2 CFR 200.431).

Personnel costs for vacation and leave time may only be requested for reimbursement after the period in which leave is taken, not at the time that leave is earned or accrued.

All salaries, wages, and benefits claimed as direct costs to federal awards must be based on the entity's documented payroll records. Time and attendance records (including work schedules, calendars, and time sheets) may be used to document payroll charges.

Personnel Costs claimed as part of the indirect cost pool, such as accounting and general administrative services, are captured in an approved indirect cost rate.

#### **4.4.2 Operating Expenses**

The Operating Expenses budget category includes such costs as supplies and materials, utilities, travel, and training. These types of expenses may be treated as either direct or indirect costs, depending on their relative benefit to the award-funded project. For more information on determining direct versus indirect costs, see **Section 4.3** and **Appendix D**.

#### **4.4.3 Equipment (Capital Equipment)**

Equipment, referred to more correctly as “capital equipment,” is defined as tangible personal property having a useful life of more than one year and a per-unit acquisition cost of \$5,000 or more. (If the item costs less \$5,000, it is categorized as “supplies.”)

DNRC subawards rarely allow for the purchase of equipment. If permitted by the award program, Program Managers will work with the subrecipient during the application process to determine if there is a need to allocate subaward funds for equipment. If the purchase of equipment is determined to be an allowable cost, it will be clearly noted in the subaward budget table, and guidance related to the acquisition and disposition of the equipment included in the Subaward Agreement.

#### **4.4.4 Contracted Services**

The Contracted Services budget category includes costs incurred for services provided under contract in support of the award-funded project. Contracted services represent an actual procurement, or purchase, of goods or services. As with general operating expenses, contractual expenses should be analyzed to determine whether they are more accurately treated as direct or indirect costs under the subaward.

#### **4.4.5 Payments to Beneficiaries**

Some DNRC subawards may require the subrecipient to enter into a contract or other agreement with the intended beneficiary of the federal award program to accomplish project goals and distribute subaward funds. An example of this arrangement is a private

individual (beneficiary) accomplishing mutually beneficial project goals under the terms of a cost-share agreement (a form of contract) between the beneficiary and the subrecipient. Even though there may be a written contract governing the relationship, it is more of a cooperative agreement than a procurement situation, so payments to beneficiaries are **not** considered a “contracted service.”

#### 4.4.6 Subawards to Second-Tier Subrecipients

Some DNRC subaward programs allow for subrecipients to further subaward part of the project to another entity, referred to as a “second-tier subrecipient,” to perform a specific part of the project. This “second-tier subaward” represents a federal subaward relationship. It is not to be confused with contracted services (a procurement relationship) or payments to beneficiaries (a cooperative relationship). Subrecipients at all tiers of the federal award process are subject to all federal administrative requirements in this manual and in 2 CFR 200.

Vendors or contractors providing goods or services in exchange for payment are not subject to all of the same rules and regulations, nor are beneficiaries who participate in and benefit from the federally funded program. For more information on the flow-down of federal grant award funding and related terms, see **Appendix B**.

#### 4.4.7 Example Project Budget Table

<b><i>Project Funding Summary:</i></b>	<b><i>Cost</i></b>
<b>Direct Costs</b>	
<b>Cooperator salary/wages/benefits</b>	<b>\$ 50,000</b>
<b>Operating Expenses</b>	<b>\$ 10,000</b>
<b>Payments to Landowners (Beneficiaries)</b>	<b>\$ 15,000</b>
<b>Contracted Services</b>	<b>\$ 15,909</b>
<b>Subtotal – Direct Costs</b>	<b>\$ 90,909</b>
<b>Indirect Costs (10%)</b>	<b>\$ 9,091</b>
<b>Total Subaward Amount</b>	<b>\$100,000</b>
<b>Match Required (1:1) or other ratio</b>	<b>\$100,000</b>
<b>Total Project Funding:</b>	<b>\$200,000</b>

#### 4.5 Match (Cost Share)

Match, also referred to as cost share, is the portion of project costs not paid with subawarded funds. It is usually the subrecipient’s contribution and/or donated services or supplies from a third-party entity. For subawards that require a match, the subrecipient must document that the match requirement has been met. Costs used to meet a match requirement must be allowable under the applicable cost principles and must meet program guidance and documentation requirements. Failure to properly record match expenses may result in the termination of the

Subaward Agreement or the withholding of subaward disbursements by the DNRC until appropriate documentation is provided.

#### 4.5.1 Match Ratio

In a DNRC subaward, the match requirement is described as an xx:xx ratio of federal to non-federal funds, such as, “3:1 federal to non-federal funds.” The subrecipient should work with the DNRC Program Manager to ensure the amount of match required is clearly stated in the Subaward Agreement and understood by the subrecipient.

#### 4.5.2 Match Requirements

Costs claimed as match must meet all the following criteria (2 CFR 200.306):

- ❖ be verifiable from the subrecipient's records;
- ❖ be necessary and reasonable for the accomplishment of project objectives;
- ❖ be allowable under the applicable cost principles (2 CFR 200-Subpart E);
- ❖ not be included as match contributions for any other state or federally-assisted project or program;
- ❖ not be paid by the federal government under another award, except where authorized by federal statute to be used for match; and
- ❖ be authorized in the DNRC-approved budget designated in the Subaward Agreement.

Note: Salaries and wages of employees used to meet match requirements must be supported in the same manner as those claimed as allowable costs under DNRC subawards. For more information on personnel costs, see **Section 4.4.1**.

#### 4.5.3 Match Types

##### **Cash Match (Hard Match)**

[Cash Match](#), also referred to as hard match, is the subrecipient's (or others') actual cash outlay, including the outlay of money contributed to the project by third parties.

##### **In-kind Match (Soft Match)**

[In-kind Match](#), also referred to as soft match, is the value of non-cash contributions provided by subrecipients or third parties. In-kind contributions may be in the form of goods, labor, services, facilities, space, personnel, materials, or equipment calculated at fair market value. Note that third-party in-kind match contributions count toward

satisfying a match requirement only when, if the party receiving the non-cash contributions were to pay for them, the payments would be allowable costs.

❖ **Donated Services - Volunteers**

Volunteer services furnished by professional and technical personnel, consultants, and other skilled and unskilled labor may be counted as match if the service is an integral and necessary part of an approved subaward-funded project or program. Values claimed for volunteer services must be consistent with costs of similar work performed in the subrecipient's organization or in the local labor market. If an entity does not have volunteer service rates readily available, an acceptable average cost per hour for unskilled volunteer services can be calculated at [http://www.independentsector.org/volunteer\\_time](http://www.independentsector.org/volunteer_time).

If volunteer services are approved to be claimed as match, the subrecipient should maintain documentation on who the volunteers were, how many hours were worked, and when and what kind of work was done. To the extent it is feasible, donated services should be documented by the same methods used to support regular personnel costs, as described in **Section 4.4.1**.

❖ **Donated Services - Others**

Other examples of donated services may include printing, website maintenance or server space, telephone services, transportation costs, or administrative or accounting services provided in support of the program. These donated services should be valued at the fair market value for the services or what the entity would have to pay for the services if they were not donated.

❖ **Donated Goods**

The reasonable value of donated tangible goods may be used as match, with DNRC approval. For example, a subrecipient may receive donations of supplies necessary to accomplish project goals, the reasonable value of which may be used for match requirements of the program. The value assessed must not exceed fair market value at the time of the donation. The subrecipient's basis for determining the value of donated goods claimed as match must be submitted with the disbursement request. See 2 CFR 200.306 for more information.

## 4.6 Disbursements of Subaward Funds

### 4.6.1 Disbursement via Reimbursement versus Advance

Most DNRC subawards require the subrecipient to incur expenses for award-funded activities, process payment, and submit a request for reimbursement to DNRC. However, in certain limited circumstances a Program Manager may approve an advance of funds.

A request for advance funding must be as close as is administratively feasible to the subrecipient's actual disbursement of funds. If an advance is approved, federal



regulations require that the subrecipient have procedures in place to minimize the time elapsing between the receipt of funds and their disbursement.

Individual subaward programs usually have specific directions, forms, and documentation requirements for the submittal of disbursement requests. (See the Subaward Agreement and/or DNRC award program website.) DNRC Program Managers may require the subrecipient to use DNRC-specific forms when requesting subaward funds, but in general, the following principles and procedures apply.

#### **4.6.2 Disbursement Documentation**

Documentation required in support of subaward disbursement requests may include, but is not limited to, the following: itemized receipts, vendor invoices, inspection certificates, financial reports that clearly show expenditures, payroll records, copies of checks, bank statements, and other forms of proof of payment. DNRC will determine whether documentation submitted adequately supports the disbursement request.

Reimbursement of expenditures will only be made for expenses included in the approved subaward project budget and clearly supported by the subrecipient's financial records.

The subrecipient must maintain appropriate and adequate records showing complete entries of all receipts, disbursements, and other transactions relating to the DNRC Subaward Agreement for three years after the termination or expiration of the agreement.

#### **4.6.3 Disbursement Withholding**

Some DNRC subaward programs require that a percentage of total subawarded funds, or of each reimbursement request, be withheld. Specifics will be outlined in the Subaward Agreement. Withheld funds are released to the subrecipient when the subaward project is concluded; any required inspections are completed; and all reports, documentation, and reimbursement requests are submitted to and approved by DNRC.

## **Section 5: Procurement of Goods and Services**

### **5.1 Procurement Standards by Entity Type**

The specific methods of procurement vary by situation and dollar amount. However, subrecipients are responsible for determining the most appropriate instrument for a particular procurement to promote the best interest of the project. For more information about considering a cost and selecting a procurement method, see **Section 4.1 Allowable Costs** and **5.2 General Procurement Standards**. DNRC may also have certain requirements as to the method of

procurement to be used in a given situation or program; if so, these will be communicated to the subrecipient during the application process and/or clearly stipulated in the Subaward Agreement.

Standards for policies and procedures governing the procurement (purchase) of goods and services with federal grant funds also vary by [subrecipient](#):

- ❖ **State Governments** are expected to follow the same policies and procedures they use for procurements with non-Federal funds (2 CFR 200.317). States must also comply with procurement policy for recovered materials (2 CFR 200.322) and ensure that purchase orders or other contracts include federally required contract provisions (2 CFR 200.326).
- ❖ **All Other Non-Federal Entities** should follow their own documented procurement procedures. These must reflect applicable state, local, and tribal laws and regulations, provided they conform to federal law and the standards of 2 CFR 200.318-326.

## 5.2 General Procurement Standards

Below are some of the common standards for procurement procedures required of all subrecipients of federal grant funds (except for states, as discussed in **Section 5.1**):

- ❖ **Documented Procurement Procedures**  
Subrecipients must have documented procurement procedures that reflect applicable state, local, and tribal laws and regulations and comply with the standards of 2 CFR 200.318-326. Among other requirements noted in the CFR, procurement procedures must ensure that subrecipients (1) avoid unnecessary or duplicative purchases, (2) conduct some form of cost/price analysis for every procurement, and (3) award contracts only to responsible contractors who possess the ability to perform successfully under the terms and conditions of the proposed procurement.
- ❖ **Written Standards of Conduct**  
Subrecipients must have written standards of conduct covering conflicts of interest and governing the performance of employees engaged in the award and administration of contracts. For instance, no employee, officer, or agent may participate in the selection, award, or administration of a contract supported by a federal award if he or she has a real or apparent conflict of interest. Conflicts of interest are further clarified in 2 CFR 200.318, as well as in federal, state, or local laws and regulations.
- ❖ **Contract Administration and Dispute Resolution**  
Subrecipients must maintain oversight to ensure that contractors perform within the terms and conditions of their contracts. Subrecipients are also responsible for the settlement of all contractual and administrative issues arising out of their procurements and therefore must have protest procedures in place to handle and resolve disputes.
- ❖ **Awarding Contracts**  
The subrecipient must award contracts only to responsible contractors able to perform successfully under the terms and conditions of a proposed procurement. Consideration

must be given to such criteria as the contractor's integrity, compliance with public policy, record of past performance, and financial and technical resources. Subrecipients should note that some DNRC Subaward Agreements may contain more specific procurement direction related to the program or project, such as requiring that a minimum of three bids be obtained and considered before procuring a certain product or service. Contracts must also contain the applicable provisions found in Appendix II of 2 CFR 200.

❖ **Competition**

All procurement transactions must be conducted in a manner that provides full and open competition, as described in 2 CFR 200.319. Some situations to be avoided, as they are considered to be restrictive of competition, include (1) placing unreasonable requirements on firms in order for them to qualify to do business, (2) requiring unnecessary experience and excessive bonding, (3) noncompetitive pricing practices between firms or affiliated companies, (4) noncompetitive contracts to consultants on retainer contracts, (5) organizational conflicts of interest, (6) specifying only a "brand name" product instead of allowing "an equal" product to be offered in describing the performance or other relevant requirements of the procurement, and (7) any arbitrary action in the procurement process.

❖ **Cost/Price Analysis**

Some form of cost or price analysis should be made in connection with every procurement action. Cost/price analysis is the review and evaluation of each element of cost to determine reasonableness, allocability, and allowability. (See **Section 4.1 Allowable Costs**.) As with competition, discussed above, there is not one set procedure to follow in every circumstance. The analysis may be accomplished in a variety of ways, such as by comparing quotes, market prices, and discounts in the process of making a reasonable decision. In the course of a cost/price analysis, subrecipients should, where applicable, also assess lease versus purchase alternatives to determine which would be the most economical and practical procurement alternative.

❖ **Solicitations**

Federal grant regulations go into greater detail on specific solicitation requirements, but at a minimum a solicitation must present (1) a clear and accurate description of the technical requirements for the material, product, or service to be procured; (2) any other requirements that the bidder/contractor must fulfill; and (3) all other factors to be used in evaluating bids or proposals. See 2 CFR 200.320 for more information.

❖ **Preference for Small and Minority Businesses, Women's Business Enterprises, and Labor-Surplus-Area Firms**

Subrecipient entities are required to take affirmative steps to assure that small businesses, minority-owned businesses, women's business enterprises, and labor-surplus-area firms are used when possible. These steps are outlined in 2 CFR 200.321.

❖ **Procurement Documentation**

The subrecipient must maintain records sufficient to detail the history of procurement. Records include, but are not necessarily limited to, the rationale for the method of procurement, selection of contract type, contractor selection or rejection, and basis for the

contract price. This documentation may be requested and reviewed by DNRC in the course of subrecipient monitoring activities and/or by independent auditors during an audit. Documents must be held for three years after the termination or expiration of the Subaward Agreement. For award-funded procurements that exceed the federal simplified acquisition threshold (currently \$150,000), additional conditions apply, detailed in 2 CFR 200.324. If procurements of this size are anticipated in the course of DNRC's award-funded activities, DNRC and the subrecipient will discuss acceptable methods and procedures prior to executing the Subaward Agreement.

❖ **Contract Provisions**

All contracts obligating federal grant funds must contain certain specific provisions, depending on the contract amount or project activities. Possible provisions include, but are not limited to, the Davis-Bacon Act and the Contract Work Hours and Safety Standards Act. Subrecipients should consult 2 CFR 200-Appendix II for specifics.

❖ **Suspension and Debarment**

As required by the federal grants awarded to DNRC, all subrecipients and contractors to be paid with federal grant funds must complete form [AD-1048](#), "Certification Regarding Debarment, Suspension, Ineligibility, and Voluntary Exclusion, Lower Tier Covered Transactions," and the signed forms must be kept on file. Subrecipients are required to have their contractors and any second-tier subrecipients complete the form and check the website [SAM.gov](#) to ensure that debarred, suspended, or otherwise ineligible contractors are not paid with federal funds. See also 2 CFR 200.212-Suspension and debarment.

## Section 6: Subrecipient Monitoring

DNRC is responsible for monitoring subrecipients and subaward-funded projects to verify that project goals are achieved and ensure that subrecipients are in compliance with state and federal laws, program regulations, Subaward Agreement terms and conditions, and administrative requirements. Subrecipient monitoring must be sufficient to accomplish the following objectives:

- ❖ determine that expenditures have been charged to the cost categories and within the cost limitations specified by the Subaward Agreement and applicable laws and regulations;
- ❖ determine that the subaward project is progressing properly and in compliance with applicable laws and regulations, contracts, Subaward Agreements, and 2 CFR 200; and
- ❖ provide technical assistance as necessary.

DNRC may conduct periodic monitoring of any subrecipient receiving financial assistance. The effort provides DNRC with information about the programmatic and financial health of the subrecipient and helps ensure successful grant administration at all levels of the federal award

and subaward process. Monitoring procedures that are clearly documented and consistently followed also protect DNRC and subrecipient entities in the event of an audit.

## **6.1 Monitoring Methods**

The monitoring methods used by DNRC depend on the specific award program, amount of the subaward, scope and complexity of the project, and subrecipient's financial and organizational history. Monitoring can also be an effective way to follow up on previous audit findings and confirm that corrective actions have been taken. Typical approaches are as follows:

- ❖ performing a risk assessment to estimate the potential for noncompliance and determine an appropriate level of monitoring;
- ❖ engaging in regular communications, such as through DNRC webinars and teleconferences, telephone conversations, email correspondence, and in-person visits;
- ❖ reviewing subrecipient project Performance Reports;
- ❖ reviewing subrecipient Financial Reports and documentation on subaward expenses;
- ❖ reviewing Single Audit (A-133) findings;
- ❖ performing desk reviews of additional subaward-related documents or policies;
- ❖ conducting site visits to verify project progress;
- ❖ providing training or technical assistance; and
- ❖ staying informed of subrecipient coverage in the news and media outlets.

## **6.2 Subrecipient Risk Assessment**

DNRC may apply special award or subaward conditions and use additional monitoring techniques for subrecipients, depending on their estimated level of risk. Factors commonly considered in evaluating a subrecipient's level of risk are as follows:

- ❖ prior experience with the same or similar subawards;
- ❖ results of previous audits;
- ❖ whether the subrecipient has new personnel or substantially changed systems;
- ❖ the extent and results of federal agency monitoring (if the subrecipient also receives federal awards directly from a federal agency);

- ❖ the amount of the subaward(s) being administered by the subrecipient; and
- ❖ the complexity of the award(s), project(s), and/or subaward(s) requirements.

### 6.3 Single Audit (A-133 Audit)

Subrecipients who have expended \$750,000 or more in federal funds during the preceding fiscal year must have a Single Audit or Program-Specific Audit conducted in accordance with the provisions of 2 CFR 200-Subpart F. As a primary recipient, DNRC is tasked with ensuring subrecipients are in compliance with this requirement, even if DNRC has only supplied a portion of the \$750,000 federal funding threshold. DNRC will review the results of audits and follow up with subrecipients as necessary.

For-profit entities and subrecipients spending less than \$750,000 a year in federal funds are exempt from the audit requirement. However, DNRC may require a subrecipient to conduct an audit according to government auditing standards if warranted by the subrecipient's risk level and/or past award noncompliance.

### 6.4 Desk Review

DNRC may perform a desk review to further analyze a subrecipient's administrative policies and subaward-related documentation to determine whether a subrecipient is complying with applicable laws and financial, administrative, and regulatory requirements. In this process, the subrecipient submits supportive documentation that is not normally reviewed in payment requests or project and financial reports, but which should be kept for audit and review purposes. For example, DNRC may request copies of payroll documentation including job descriptions, timesheets, or benefits breakdown (if applicable). Desk reviews may also be conducted on a group of subrecipients to target a specific area of compliance review.

### 6.5 Site Visit

Site visits give DNRC officials an in-depth review of a subrecipient's project or organization. Although topics may vary according to the purpose of the visit, the subrecipient can expect a review of the organization's policies and procedures and documentation of the following:

- ❖ project progress;
- ❖ financial and accounting practices;
- ❖ personnel policies and procedures;
- ❖ procurement and subawarding policies and procedures; and
- ❖ property documentation, controls, and disposition.

After a site visit, DNRC will submit a report to the subrecipient that includes its observations, any recommendations for improvement, and/or expectations for corrective action. If corrective action is required, a timetable for response is usually set forth in the report. The subrecipient is expected to respond, in writing, with corrective action plans, schedules, and documentation of completed corrective actions.

## **6.6 Corrective Action Plan**

If, in the process of subrecipient grant monitoring, an audit finding or other significant problem arises, a corrective action plan may be created to address the issue. At a minimum, this entails:

- ❖ identifying each problem found during the evaluation of the award program,
- ❖ describing corrective actions to be taken for each problem identified, and
- ❖ establishing a date by which each corrective action will be completed and the person responsible for implementing it.

The corrective action plan should be completed by the subrecipient and submitted to DNRC for approval before the due date.

## **6.7 Monitoring Follow-Up**

The follow-up to issues raised in DNRC monitoring of subrecipients varies depending on the extent and severity of the issues raised and how the corrective action process is managed. Follow-up may include communication with the subrecipient after the review of the corrective action plan, additional desk reviews, and announced or unannounced site visits.

## **6.8 Agency Remedies**

If a subrecipient does not complete a corrective action plan or correct known violations, DNRC may seek remedies to enforce the terms of a Subaward Agreement. Remedies sought and/or imposed on noncompliant subrecipients are based on severity of the violation and may include:

- ❖ temporarily withholding cash disbursements pending correction or submission of additional documentation;
- ❖ disallowing expenditure of funds for activities that do not comply with the law, regulations, or Subaward Agreement;
- ❖ classifying the recipient as “high-risk” and adding special terms and conditions to current and future Subaward Agreements;

- ❖ placing contingencies on renewal of funds, such as requiring the recipient to conduct and pay for independent auditing and award monitoring;
- ❖ refusing to extend the subaward;
- ❖ terminating the subaward;
- ❖ initiating proceedings to suspend and/or debar the recipient from participating in federal programs;
- ❖ pursuing recovery of funds; and
- ❖ pursuing criminal penalties.

DNRC makes every effort to work with subrecipients to facilitate understanding of and compliance with subaward requirements. Subrecipients with concerns or questions should contact their Program Manager or other appropriate DNRC representative for direction on the administration of their award.

## Section 7: Subaward Agreement

### **7.1 Period of Performance**

Allowable costs must be incurred, though not necessarily paid, within the period of performance, also called “the term of the Subaward Agreement.” The period begins on the date of the last signature to the agreement and ends on the agreement’s expiration date. Unless prior written approval is given by the DNRC Program Manager or included in the Subaward Agreement, costs incurred prior to the period of performance are not allowable. In some cases, the term of a Subaward Agreement may be extended via written amendment, signed by the subrecipient and appropriate DNRC personnel.

### **7.2 Subaward Modifications**

Permission to substantially modify subawarded projects must be requested in advance and in writing to the DNRC Program Manager. Refer to 2 CFR 200.308 and the Subaward Agreement to determine what type of project modifications must be submitted for approval. Modifications that commonly require prior approval include changes in project scope or objectives, changes in key personnel, extensions to the term of the Subaward Agreement, or budget modifications.

Requests to modify an existing subaward must include a written narrative describing the reason for the changes and an itemized, revised budget (if applicable). Requests must be submitted and approved prior to the anticipated changes taking place.



DNRC Program Managers will promptly review all modification requests and either approve or disapprove the request in writing. Significant revisions may require a formal written amendment to the Subaward Agreement signed by both parties. DNRC will not approve any modification inconsistent with the purpose or terms and conditions of the federal grant awarded to DNRC.

### **7.3 Subaward Reporting**

DNRC is responsible for implementing grant-funded programs efficiently and effectively. Both recipients and subrecipients of federal and state grant funds are held accountable for performance and required to report regularly on accomplishments. DNRC incorporates subrecipients' reported data in its reports to the federal awarding agency. Accurate and timely reporting at all levels helps the federal agency link funding to accomplishments, increasing the likelihood of future funding opportunities.

Subrecipient project performance reports should describe the status of the project, accomplishment of project goals and objectives, and any problems or obstacles encountered. According to 2 CFR 200.333, performance should be measured in ways that will help the federal awarding agency, pass-through entity, and subrecipients improve program outcomes, share lessons learned, and spread the adoption of promising practices.

Financial reports should provide an overview of the project's financial status, total expenditures, and any program income earned. Reporting requirements for subrecipients vary by program; further reporting requirements are outlined in the Subaward Agreement.

### **7.4 Subaward Closeout**

Closeout of Subaward Agreements occurs when the following steps have been completed:

- ❖ All financial and performance reports and required documentation have been submitted by the subrecipient and approved by DNRC.
- ❖ All approved expenses under the subaward have been reimbursed by DNRC.
- ❖ The DNRC Program Manager has certified that all required actions have been completed.
- ❖ DNRC has issued guidance to the subrecipient regarding the proper disposition of equipment and/or residual inventory of unused supplies purchased with subaward funds.

### **7.5 Record Retention**

As the primary recipient of federal grant funds, DNRC is obligated to maintain award and subaward records according to federal and state record retention requirements. Subrecipients must comply with the federal requirement in 2 CFR 200.333 that documents be retained for a minimum of three years after the expiration of the subaward.

## Appendix A: Definitions

### **Allowable Costs**

In order to be considered allowable under an award or subaward, a cost must, at a minimum, be allocable, reasonable, and necessary. See **Section 4.1** for more criteria.

### **Applicable Credits**

Applicable credits are receipts or reduction-of-expenditure-type transactions that offset or reduce expense items allocable to the award as direct or indirect costs. Examples include purchase discounts, rebates or allowances, recoveries or indemnities on losses, insurance refunds or rebates, and adjustments of overpayments or erroneous charges. To the extent that such credits accruing to or received by the organization relate to allowable costs, they shall be credited to the federal or state award either as a cost reduction or cash refund, as appropriate.

### **Beneficiary**

Beneficiaries are the persons, groups, organizations, or other entities that are intended to ultimately benefit from the award. Beneficiaries are not considered subrecipients and therefore are not subject to the same regulatory and administrative requirements as subrecipients.

### **Cash Match (Hard Match)**

Cash match, also referred to as hard match, is the subrecipient's or others' actual cash outlay to an award program, including the outlay of money to the project by third parties.

### **Code of Federal Regulations (CFR)**

The CFR is the codification of the rules and regulations published in the Federal Register by the executive department and agencies of the federal government of the United States. The CFR is divided into 50 titles that represent broad areas subject to federal regulation. Title 2 (part 200) contains instruction for recipients (and subrecipients) of federal grant awards to facilitate stewardship and accountability of federal funds. These instructions are provided by the Office of Management and Budget, or OMB. They can be viewed at [www.ecfr.gov](http://www.ecfr.gov) (Title 2, Part 200).

### **Cognizant Agency**

A cognizant agency is the federal agency responsible for reviewing, negotiating, and approving cost allocation plans or indirect cost proposals for a non-federal entity on behalf of all federal agencies. Instruction for the assignment of cognizant agencies varies by entity; see 2 CFR 200.19 and associated appendices for clarification.

### **Cost Objective**

Cost objective means a program, function, activity, award, organizational subdivision, contract, or work unit for which cost data are desired and for which provision is made to accumulate and measure the cost of processes, products, jobs, capital projects, etc. A cost objective may be a major function of the non-federal entity, a particular service or project, a federal award, or an indirect cost activity.

**Direct Cost**

A direct cost is one that can be identified specifically with a final cost objective (such as a grant project).

**Equipment (Capital Equipment)**

Equipment entails an article of nonexpendable, tangible personal property having a useful life of more than one year and an acquisition cost that equals or exceeds \$5,000.

**Generally Accepted Accounting Principles (GAAP)**

GAAP is a widely accepted set of rules, conventions, standards, and procedures for reporting financial information, as established by the American Institute of Certified Public Accountants (AICPA). For more information, see [www.aicpa.org](http://www.aicpa.org).

**Indirect Cost**

An indirect cost is a cost incurred for common or joint objectives that cannot be readily identified with a final cost objective without effort disproportionate to the results achieved. The indirect cost is also known as a “Facilities and Administrative,” or F&A cost.

**In-kind Match (Soft Match)**

In-kind match, also referred to as “soft match,” is the value of non-cash contributions provided by subrecipients or third parties. In-kind contributions may be in the form of goods, services, land, facilities, space, personnel, materials, and equipment calculated at fair market value that directly benefits and is specifically identifiable to the project or program.

**Match (Cost Share)**

Match, also referred to as Cost Share, is generally the portion of project or program costs not paid with award funds. It is usually the subrecipient’s contribution and/or donated services.

**Pass-Through Entity**

The pass-through entity is a non-federal entity that subawards federal funding to a subrecipient to carry out part of a federal program.

**Personnel Costs**

Personnel costs include compensation paid to employees as wages or salaries and related fringe benefit costs for services provided during the period of the award.

**Primary Recipient**

The primary recipient is a non-federal entity that receives federal awards directly from a federal awarding agency to carry out a federal program.

**Program-Specific Audit**

A program-specific audit examines the financial and compliance components of an individual program. They are less rigorous than the single audit, which examines the financial and compliance components of an entire entity.

**Single Audit**

The Single Audit, described in 2 CFR 200-Subpart F, is a rigorous, organization-wide audit or examination of an entity that expends \$750,000 or more of federal assistance (commonly known as federal funds, federal grants, or federal awards) received for its operations. Usually performed annually, the Single Audit's objective is to provide assurance to the U.S. federal government as to the management and use of such funds by recipients such as states, cities, universities, and nonprofit organizations. The audit is typically performed by an independent certified public accountant (CPA) and encompasses both financial and compliance components.

**Subaward**

Subaward means an award provided by a pass-through entity to a subrecipient to carry out part of the federal award. It does not include payments to a contractor or payments to an individual that is a beneficiary of a federal program.

**Subgrant**

See "Subaward."

**Subrecipient**

A subrecipient is a non-federal entity that receives a subaward from a pass-through entity to carry out part of a federal program. It does not include the beneficiaries of the program. Note that a subrecipient may also be a primary recipient of other federal awards directly from a federal awarding agency.

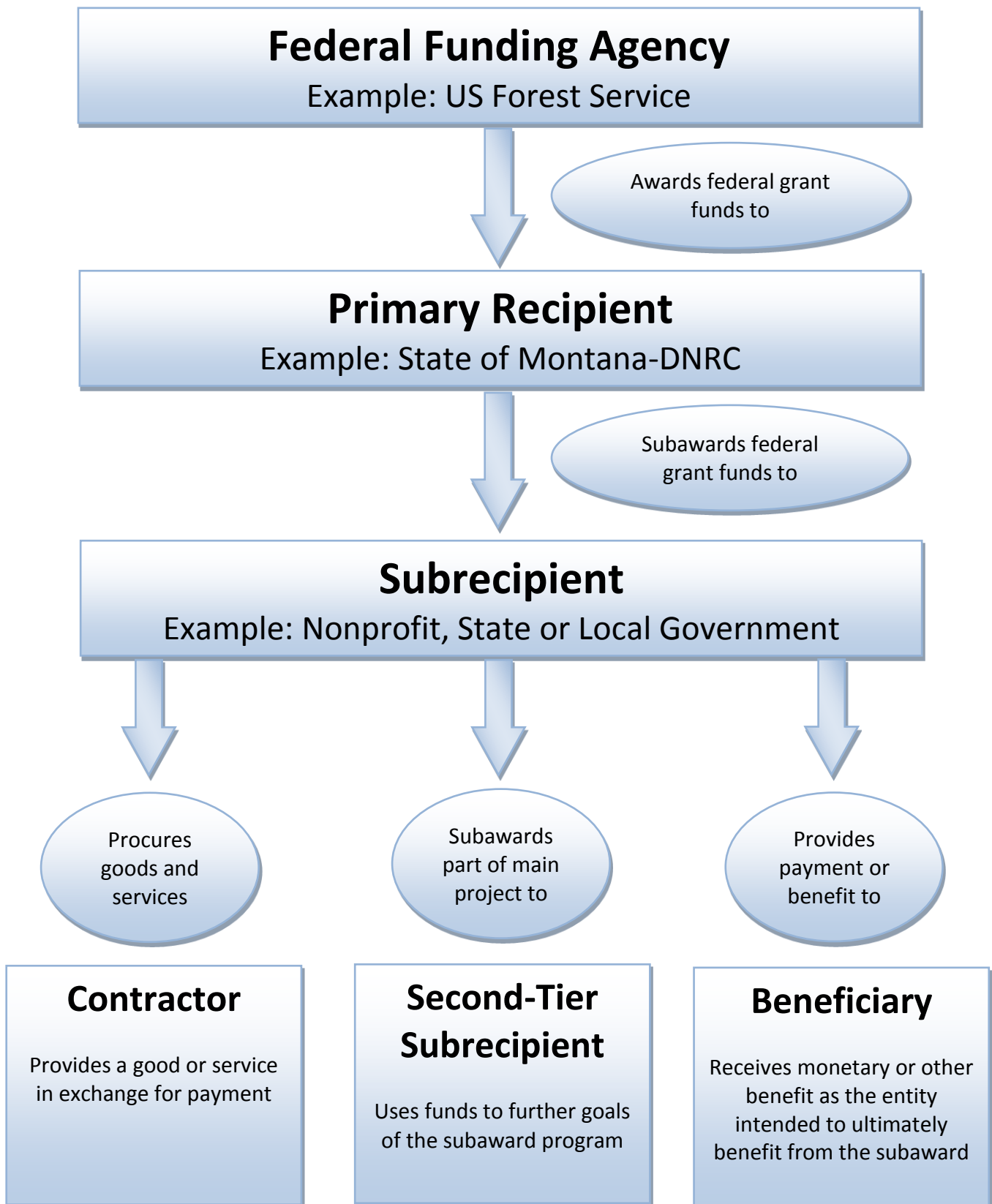
**Unallowable Costs**

Unallowable costs are costs that the federal government and DNRC deem inappropriate per OMB guidance and will not reimburse.

**Vendor or Contractor**

A vendor or contractor is a dealer, distributor, merchant, or other seller providing goods or services that are required to carry out the objectives of a state or federal program. These goods or services may be for an organization's own use or for the use of beneficiaries of the state or federal program. Note that in 2 CFR 200, the term "vendor" has been eliminated in favor of "contractor."

## Appendix B: Flowchart of Award Funding



## Appendix C: Manual Updates

- Initial Issuance: June 10, 2013.
- Revised July 15, 2015, to reflect consolidation of federal grant guidance into 2 CFR 200.

## Appendix D: Direct and Indirect Costs Decision Tree

*Should this cost be allocated as a direct or indirect cost to my Subaward?*

